



A rolling loan gathers no loss

On January 30, 2018 Viceroy Research released our report on Capitec (JSE:CPI) citing a need for large impairments and regulatory intervention. Our report can be viewed in its entirety at: www.viceroyresearch.org

The issues expressed by Viceroy have been reflected in a letter from Benguela Global Fund Managers to Capitec also raising concerns about Capitec's lending practices¹. This report presents the results of Viceroy's further investigation into Capitec and a rebuttal of Capitec's responses to Viceroy and Benguela.

- Since the publication of our last report, Capitec has disclosed that an extraordinarily large portion of its subprime, highly indebted customers who miss payments on their loans are somehow able to find the money to "catch up" or "cure" their arrears. This is suspicious.
 - Numerous former Capitec staff and 5 prominent debt counselling firms with proprietary datasets on South African unsecured lending support our thesis that this "curing" method is how Capitec hides the disastrous underlying performance of its loan book. If a borrower in arrears is able to beg or borrow the funds from a secondary lender to pay down their arrears and make themselves "current", Capitec immediately offers them a new, larger loan. The borrowers use this new, larger Capitec loan to pay off the secondary lender used to cover the arrears.
 - Analysis of tens of thousands of Capitec borrowers' datasets within debt counselling firms show **consumers were able to get new loans after paying down their arrears the day prior**. Thus, we can state empirically that this practice is still occurring. We contrast this with the lending criteria of a Standard Bank or Absa where there is a "cooling off" period before a borrower formerly in arrears can seek a new loan - to prevent exactly this behavior. **By offering upsized loans to people who have just cleared their arrears, Capitec management is able to say with a straight face that they do "not lend into arrears". This is TRUE in fact - but not in substance.**
 - While the borrower is getting more and more indebted and is still unable to pay their debts, lending to people who were immediately prior in **allows Capitec to artificially generate "cures", unsustainably increase its loan book, charge massive initiation fees and create a façade of quality within its consumer base.**
 - Well over half (70% - 80%) of Capitec consumers in debt counselling were issued new loans prior to repaying their existing loans.
- **Viceroy have obtained communications from Capitec Head Office dated 8 February 2018 to local branches advising that it has amended the number of allowable loans per customer.** Reading between the lines, **Capitec appear to be tightening or relaxing lending rules in order to achieve the greatest possible return as opposed to the consumers ability to repay those loans.**
- **Viceroy has obtained evidence of Capitec intentionally abusing the debit order system to ensure its debits take priority ahead of other lenders.**
- Following the publication of our last statement several media outlets have reported on CEO Gerrie Fourie's purchase of ZAR 1.5m of Capitec shares on the open market, presenting this as a show of faith in the company. We believe this is intentionally narrow-minded when viewed in the context of the net market sale of ZAR 49m worth of Capitec shares by Fourie in 2017. Collectively, directors sold ZAR 406m Capitec shares on market in 2017 alone.
- We respond systematically to Capitec's poorly constructed rebuttal of our prior report.

¹ <https://www.biznews.com/sa-investing/2018/01/31/capitec-benguela-viceroy/>



Capitec's behavior has led to material overstatement of the quality of the book and substantial under-provisioning. We note the South African Reserve Bank (SARB) described Capitec as being liquid and solvent on the basis "of the available information". Evidence suggests the available information is being deliberately distorted by Capitec management and we believe that as a matter of prudential supervision the SARB must investigate the lending practices at Capitec. We are providing this data to SARB and the NCR.

Viceroy continues to believe that Capitec is fundamentally uninvestable and reiterate our recommendation that an investigation by an independent body is launched in the face of the evidence presented in our research.

Important Disclaimer – Please read before continuing

This report has been prepared for educational purposes only and expresses our opinions. This report and any statements made in connection with it are the authors' opinions, which have been based upon publicly available facts, field research, information, and analysis through our due diligence process, and are not statements of fact. All expressions of opinion are subject to change without notice, and we do not undertake to update or supplement any reports or any of the information, analysis and opinion contained in them. We believe that the publication of our opinions about public companies that we research is in the public interest. We are entitled to our opinions and to the right to express such opinions in a public forum. You can access any information or evidence cited in this report or that we relied on to write this report from information in the public domain.

To the best of our ability and belief, all information contained herein is accurate and reliable, and has been obtained from public sources we believe to be accurate and reliable, and who are not insiders or connected persons of the stock covered herein or who may otherwise owe any fiduciary duty or duty of confidentiality to the issuer. We have a good-faith belief in everything we write; however, all such information is presented "as is," without warranty of any kind – whether express or implied.

In no event will we be liable for any direct or indirect trading losses caused by any information available on this report. Think critically about our opinions and do your own research and analysis before making any investment decisions. We are not registered as an investment advisor in any jurisdiction. By downloading, reading or otherwise using this report, you agree to do your own research and due diligence before making any investment decision with respect to securities discussed herein, and by doing so, you represent to us that you have sufficient investment sophistication to critically assess the information, analysis and opinions in this report. You should seek the advice of a security professional regarding your stock transactions.

This document or any information herein should not be interpreted as an offer, a solicitation of an offer, invitation, marketing of services or products, advertisement, inducement, or representation of any kind, nor as investment advice or a recommendation to buy or sell any investment products or to make any type of investment, or as an opinion on the merits or otherwise of any particular investment or investment strategy.

Any examples or interpretations of investments and investment strategies or trade ideas are intended for illustrative and educational purposes only and are not indicative of the historical or future performance or the chances of success of any particular investment and/or strategy.

As of the publication date of this report, you should assume that the authors have a direct or indirect interest/position in all stocks (and/or options, swaps, and other derivative securities related to the stock) and bonds covered herein, and therefore stand to realize monetary gains in the event that the price of either declines.

The authors may continue transacting directly and/or indirectly in the securities of issuers covered on this report for an indefinite period and may be long, short, or neutral at any time hereafter regardless of their initial recommendation.



Capitec's response to Benguela

In response to a letter addressed to Capitec by Benguela Global Fund Managers, Capitec issued a response addressing what was perceived to be excessive rescheduling estimates. Capitec's letter showed its calculations:

Rm	Benguela Calculation	Capitec calculation
Loans rescheduled from arrears:		
Six months to August 2017	1,396	1,396
Six months to February 2017	1,583	1,583
Numerator: Balances rescheduled during the year	2,979	2,979
Loans in arrears August 2017	2,498	2,498
Loans rescheduled from arrears:		
Six months to August 2017	1,396	1,396
Six months to February 2017		1,583
Write-offs 12 months to August 2017		6,453
Estimated cured arrears 12 months to August 2017 ⁽¹⁾		5,192
Denominator: Arrears during the year	3,894	17,122
Estimated rescheduling % arrears	76.5%	17.4%

(1) Estimate of cured arrears	
Arrears balances	
Aug-16	2,561
Feb-17	2,855
Aug-17	2,498
Average arrears	2,638
Cure rate (1-provision against arrears balances of 67.8%)	32.8%
Time to cure (months)	2
Months in year	12
Estimated arrears cured during the year	5,192

Figures 1, 2 & 3 Extract from Capitec's response to Benguela Global Fund Managers²

It is apparent is that, ON CAPITEC'S OWN NUMBERS, A VALUE EQUAL TO ONE THIRD OF ITS GROSS LOAN BOOK FALLS INTO ARREARS EACH YEAR.

This is a massive number, and has been derived directly from Capitec's response to Benguela.

Capitec themselves have represented a gross portfolio where a value equivalent to **at least** one third of the **unsecured, subprime retail consumer loan gross loan book falls into delinquency each year**. Despite management rhetoric, this does not make Capitec comparable to major banks.

The largest difference between Benguela and Capitec's estimate of rescheduling as a percentage of arrears is Capitec's curing numbers, which represent the value of loans which went into arrears and were subsequently

² https://www.capitecbank.co.za/resources/Capitec_response_to_Benguela.pdf



“cured”. We found it extremely odd that such a high number of majority low-income, subprime consumers have the financial means to cure their arrears.

Viceroy have calculated the number of new arrears value to August 2017 per the below table:

Arrears analysis	
ZAR ('000s)	
Beginning gross loan book	40,891,465
Ending gross loan book	45,135,357
Average gross loan book 2017	43,013,411
Arrears during the year per Capitec figures	17,122,000
Less: arrears at start of year	(2,561,000)
Less: change in arrears balance over year	(63,000)
New arrears to August 2017	14,498,000
% Gross loans	33.7%

We find it curious that Capitec chooses to disclose a rough estimate of cured loans when actual figures would presumably be easily accessible through management accounts. In its estimation calculation, Capitec’s purported “conservative” time-frame under which arrears are cured plays favor to this figure:

model 32.8% of arrears balances cure. A rough estimate would be to take average arrears for the year, multiplied by the cure rate, multiplied by 12 and divided by the average period to cure (two months would be conservative, given that arrears are written off after month 3 and the highest cure rates are observed on clients that are one month in arrears). This would add a further R5.2 billion to the denominator for the period to August 2017 and reduce the quoted percentage of 76.5% to 17.4%.

Figure 4 Extract from Capitec’s response to Benguela Global Fund Mangers

If we adjust Capitec’s estimate calculation to reflect their assertion that most clients in arrears cure their loans within a month, we end up with a much higher and purportedly more accurate assumption of cured loans:

Cured arrears analysis			
ZAR (m)			
Aug-16	2,561	2,561	2,561
Feb-17	2,855	2,855	2,855
Aug-17	2,498	2,498	2,498
Average arrears	2,638	2,638	2,638
Cure rate	32.8%	32.8%	32.8%
Time to cure (months)	2.0	1.5	1.0
Months in year	12	12	12
Estimated arrears cured during the year	5,192	6,922	10,383
Adjusted new arrears during the year	14,498	16,229	19,690
% Gross loans	33.7%	37.7%	45.8%

Given this rate of mass delinquencies on a subprime loan book, Viceroy do not buy the story that these most financially at-risk consumers are able to simply cure their delinquencies within one month, especially in light of the evidence in our original report which clearly shows that Capitec have a history of providing new loans to consumers in order to repay old loans.

Since the publication of our report former and current customers and employees have reached out to Viceroy to corroborate our thesis and provide evidence to that effect. **Viceroy will, with permission from those who have reached out, provide this evidence to SARB and NCR.**



How to cure a loan – Capitec channel checks

Viceroy have interviewed numerous debt counsellors, former Capitec branch managers and salespeople to deep-dive into how Capitec's unsecured short- and medium-term consumer loans could have such high "cure" rates on delinquencies.

Capitec adamantly claims it does not issue new loans to clients in arrears anymore - we provided objective evidence that it had done so in the past in the form of numerous affidavits with supporting documentation. However, Capitec may be technically right in saying that behavior does not occur at the moment. Instead, they have found a far cleverer way to achieve the same effect while allowing them the ability to deny any lending into arrears. Numerous former Capitec employees have informed us that it is common practice to issue debt to consumers who were in arrears one day earlier, so long as they had "cured" the arrears on their existing loan.

We are not exaggerating when we say clients who cured loans one day were granted new loans the next: this is a frequent occurrence. Tens of thousands of Capitec borrowers' datasets and analysis obtained from debt counsellors suggest a vast number of customers who cure their arrears are immediately extended new loans. On a broader level 70-80% of debt counselling clients from Capitec were issued incremental loans prior to repaying their existing loans.

Debt counsellors we have spoken to have provided Viceroy with data sets in order to corroborate the existence and *vast extent* of this behavior. Former Capitec staff also corroborated these practices.

Customers who were going into arrears (or expected to go into arrears) extended their loans by making their account current (i.e. curing the loan). How can these financially distressed clients make their loans current? Former staff – perhaps misguidedly – bragged about how quickly they could help their customer process a new loan if they were to fall (or about to fall) into arrears.

Former staff and managers also revealed to Viceroy the vast network of less legitimate loan sharks, unconventional sources of credit, and informal rotating credit unions known as "Stokvel" that are routinely used to pay off arrears on consumer loans. These systems essentially obfuscate the true nature of consumer debt.

Documents provided to Viceroy also show Capitec abusing the debit order dispute system in order to ensure their loan repayments take priority over those of other lenders when the funds in the client's account are insufficient. The client is then granted to subsequently pay the disputed valid debit orders. **Capitec is lending to a client they know cannot meet their fiscal obligations and profiting at the expense of other banks placing the client in a debt spiral.** Given these loans would be registered in the national database, we believe this abuse of the system is intentional.

Debit order disputes

Bank statements and pay slips of Capitec clients provided to Viceroy show that Capitec abusing the debit order dispute system in order to sell further credit and ensure their payment before other lenders. More concerning, these pay slips already had garnishee orders from 2 other lenders implying they had already fallen into arrears before.

The debit order dispute abuse surprised us the most as there is a clear criminal element to the creative procedure which is coordinated by Capitec staff.

Capitec loans are tied to a client's Capitec bank account and the bank can draw its repayments from the client's account directly. When the fees and repayments to other lenders surpass the amount in the bank account required to pay back Capitec loans, Capitec staff have disputed debit orders on the client's account to temporarily make up the balance, cure the Capitec loan arrears, and issue a new loan to pay what were in fact legitimate debit orders.

So that readers can get an idea of how blatant this activity is, we have included an example. To protect the identity of the customer, Viceroy has redacted the client's identifying information in the documents below:



25/01/2013	25/01/2013	[REDACTED]	DISPUTED	1 710.24	2 862.53
			1 DISPUTE CAPFIN		
			FROM [REDACTED]		
25/01/2013	25/01/2013	[REDACTED]	*DISPUTED FEE	4.00	2 858.53
25/01/2013	25/01/2013	[REDACTED]	DISPUTED	649.26	3 507.79
			2 DISPUTE INCOBOL		
			FROM [REDACTED]		
25/01/2013	25/01/2013	[REDACTED]	*DISPUTED FEE	4.00	3 503.79
25/01/2013	25/01/2013	MITCHELLS PLA	TRANSFER	3 142.72	361.07
			TRANSFER TO [REDACTED]		
25/01/2013	25/01/2013	[REDACTED]			
		[REDACTED]			
25/01/2013	25/01/2013	[REDACTED]			
		[REDACTED]			
			WZA		
25/01/2013	25/01/2013	MOBILE USSD	TRANSFER	2 700.00	2 781.29
			TRANSFER [REDACTED]		
25/01/2013	25/01/2013	SASWITCH	CASH WITHDRAW	2 700.00	81.29

Figure 5 Extract from Capitec customer bank statement provided to Viceroy

Above you can see disputed debit orders against microlenders Capfin³ and Cobol⁴ in segments 1 and 2. Those who have read Viceroy's report on Steinhoff will recognize Capfin as a Steinhoff subsidiary. At the time of the above Capfin was operating as a listed entity in Bermuda controlled by Christo Wiese, who was a de-facto major shareholder of Capitec and previously on the board of PSG.

The reversal of these debit orders allowed the client to repay their multi-loan instalment to Capitec to the sum of ZAR 3,142.72 in segment 3. Capitec on the same day issued the client a new multi loan to the value of ZAR 2,700 visible in segment 4.

What is most concerning is that these disputed debit orders are to *other credit providers*. In essence, Capitec is facilitating the reversal of legitimate debit orders made to their competitors for loans they know exist, as they are listed on the National Loans Register.

These disputes would have to be entered by a Capitec employee. Therefore, not only would Capitec have known about outstanding debt with Cobol and Capfin, but an affordability assessment would also show that this client had **garnishee orders** with two other lenders!

This implies the client had already gone into arrears at these two credit providers.

[REDACTED]		GROSS EARNINGS	[REDACTED]
Garnishee Orders		AA7317	600.00-
Standard Bank TRF - Loan		173570151	996.00-
		TOTAL DEDUCTIONS	[REDACTED]

Figure 6 Extract from Capitec customer payslip provided to Viceroy

³ <https://www.capfin.co.za/>

⁴ <https://www.cobol.co.za/>



Essentially, Capitec granted a loan to a client who was delinquent with 2 loans (per garnishee orders in figure 5 above) by cancelling debit orders (making the client delinquent in 4 loans) in order to make the client “current” in Capitec’s loan book. The bank then sold further credit to the client to settle their other loans.

The contents above directly contradict Capitec’s assertion:

unsecured basis over 24 months. This has enabled Capitec to increase market share among lower risk and higher income clients over time.

Figure 7 Extract from Capitec response to Viceroy

Capitec’s assertion that it is lending to only the best clients absolutely collapses in the face of this evidence as the bank would have had to have been provided pay slips and access to the client’s account. Capitec would have to have known the client was unable to meet his monthly obligations and extended a loan anyway.

Pre-empting a response from Capitec that this is an isolated incident and that this example is in the past: it is not. In our discussions with debt counsellors and former staff these are not isolated incidents and in the words of a former staff member the practice is currently happening “all the time”.

Court filings from cases referred to in our previous report suggest that the manner in which Capitec aggressively collects repayments directly from client bank accounts may be skirting the National Payment Systems Act requirement to treat those collecting money via debit order equally:

DECLARATION BY THE CLIENT
I declare that I am legally competent to make this agreement and, if I am married in community of property, my spouse agrees that I make the agreement.

CREDIT AGREEMENT IN TERMS OF SECTION 93 OF THE NATIONAL CREDIT ACT 34 OF 2005
SMALL OR INTERMEDIATE

A. Loan: payment schedule and payments			
Loan amount:	R80000.00	Installments payable:	Monthly
Initiation fee, charged up front:	R0.00	(14% VAT included)	
Monthly service fee, included in instalment:	R57.00	(14% VAT included)	
Instalment, including interest and fees:	R3664.84	(No credit life insurance or optional insurance is charged)	
Number of instalments:	34	(No credit life insurance or optional insurance is charged)	
Total all instalments, including interest and fees:	R124604.56	Amount of interest at inception of agreement:	R42666.56
Annual interest rate:	32.10 %	Date of first payment:	25/06/2014*
Repayment arrangements		Date of last payment:	25/03/2017*
Method of payment:	Debit order		
and thereafter on Every 25th Day* in every Month*			
*or such earlier date on which your salary/wage is paid in any given week/month			

EARLIER WITHDRAWAL

40. A multi loan becomes due and payable on the date that my salary is paid into my account. According to Annexure “MPT11” the Respondent withdrew R3 664.84 on 20 October 2014 when my salary was actually only paid on 24 October 2014.



41. I did not give the Respondent permission to make this earlier deduction. The Respondent must have monitored my account to

MP
MP

17

pounce on any early opportunity to withdraw the payment. I am advised that the motivation for such conduct is to avoid the consequences of the National Payment Systems Act in terms of which all credit providers and other businesses which collect payments via debit orders, are treated fairly and equally.

Figures 8, 9 & 10 Thobejane Application High Court

We further question whether other lenders approve of this historical and ongoing abuse of their debit order dispute systems.

Alternative sources of finance

Viceroy was informed that in close vicinity to many Capitec branches, consumers have a variety of alternative sources of finance. This could be anything from other microlenders, pawn shops or less legitimate loan sharks. These financiers can provide very short-term loans with massive fees attached in order for delinquent Capitec clients to repay arrears, become current on their existing loan and take out a further loan with Capitec. A portion of the new loan is used to fix the alternative short-term finance, the rest contributes to the debt black hole which many customers are already in.

Stokvel

South Africans will be familiar with the concept of a Stokvel, which is essentially a community group where members contribute to a fund⁵. Members are paid lump sums on a rotating basis, meaning there is liquid cash available for any member to use on a short-term basis.

Former Capitec staff advised that many Stokvel members would draw from the fund intra-day in order to repay arrears and extend a further loan facility by the next day in order to repay the Stokvel (with interest).

⁵ <https://www.iol.co.za/business-report/stokvel-report-how-south-africans-save-their-money-9636937>



Staff incentives

Channel checks with debt counselling firms and former Capitec staff have revealed staff incentives designed to sell the maximum amount of credit from each customer regardless of their ability to repay these loans. Below are their observations:

- Staff are encouraged to capture at least 2 referrals for each new savings or loan account opened. **This number is increased if the client works for the South African government.**
- Referrals are generally required to be contacted within 2 days, encouraged to open a Capitec account and later pursued as targets for Capitec loans.
- Clients not currently using short-term loan facilities are contacted and reminded that the facility is available. This corroborates our previous channel checks indicating that Capitec staff are being used as a sales force as opposed to their customer service role.
- Pay raises are dependent on credit issued to clients. **Failure to extend the maximum amount a client qualifies for is classed as an undersell** and reflected upon in performance reviews.

Capitec's staff are heavily incentivized to sell as much credit as possible, using underhanded methods to keep those accounts current. This is corroborated by Capitec's puzzling statements in its 2016 annual report:

We continued to refine the precision of the credit granting model throughout the year to enable us to achieve loan sales totalling R24.2 billion for the year (2015: R19.4 billion). While the value of

In November 2015 the updated granting model included the launch of a credit facility, which replaced the multi loan. We further updated the affordability assessment in the model, resulting in an improved offer to higher quality and higher income clients, through increasing the maximum allowable repayment to income ratios for these clients.

Figures 11 & 12 - Extract from Capitec Annual Report 2016

Reading between the lines, Capitec appears to be relaxing or tightening lending rules in order to achieve the greatest possible return on equity as opposed to the consumer's ability to repay those loans.

Affordability checks

While the above activities appear to be reckless, a failing of the National Credit Act essentially facilitates this excessing lending behavior despite the introduction of regulated affordability assessments. Affordability checks and minimum expense checks have been regulated to a very relaxed degree. Below are the National Credit Act minimum monthly expense tables:



Minimum	Maximum	Minimum monthly Fixed Factor	Monthly Fixed Factor = % of Income Above Band minimum
R0.00	R800.00	R0.00	100%
R800.01	R6,250.00	R800.00	6.75%
R6,250.01	R25,000.00	R1,167.88	9.00%
R25,000.01	R50,000.00	R2,855.38	8.20%
R50,000.01	Unlimited	R4,905.38	6.75%

Figure 13 Minimum monthly expense tables

$$\text{minimum} + (\text{maximum} - \text{minimum} \times \text{monthly fixed factor}) = \text{minimum monthly fixed factor}$$

Essentially if a client in the ZAR 6,250 to ZAR 25,000 net monthly income range wishes to claim their expenses are less than ZAR 1,1167.88 they must fill out a form proving this to be true.

In reality, it's a little more complicated than that: debt counsellors and former staff suggest that an expense percentage of net monthly income can be and is stretched up to 91%.

This regulation asserts that a loan whose repayments consume 91% of an individual's income is "affordable". In reality this is obviously not the case, especially within the demographic of Capitec's largely low-income band. Viceroy was informed the average income of a Capitec customer undergoing debt counselling is roughly ZAR 11,000 a month.

Of course, if a client confides in a salesperson that their expenses are above 9% of their income, the salesperson is compelled to believe them. This rarely happens as both parties have aligned interests: the consumer wants money, and the salesperson wants to lend as much money as possible per incentives described above.

Former Capitec staff and branch managers confirmed, again, that this happens "all the time".

Debt counsellors we have spoken to have advised that incoming clients' loans typically consume 50%-70% of their income, and that Capitec clients are incoming at increasing rates to clients of any other microlender. While Capitec may not be in breach of the technical nature of the law, they are clearly not acting in a consumer's best interest by putting them in cyclical debt.

Further, debt counsellors have advised that debt counselling works by reducing or eliminating Capitec interest and **extending loans** for repayments to reach a real affordable level. This real affordable level is generally ~30% of income consumed by debt repayments and this is achieved by reducing interest rates to near zero. This does not corroborate with Capitec claims that only their most creditworthy customers qualify for their longer-term loans: it is the exact opposite.



Growing number of loans in counselling

Debt counsellors we have spoken to advise that not only are their number of Capitec clients increasing substantially faster than any other lender, but also that the number of loans taken out by each Capitec customer is also increasing.

Through our discussions with debt counsellors, Capitec clients average ~2-3 loans from Capitec *not including the multi-loan / credit facility*. If we do include the multi-loan facility, consumers in debt counselling have on average 7-15 credit agreements across debt counselling firms in their debt catalogue.

Data sets also show that on average, Capitec credit agreements entered into by these clients are typically entered into on the *same day*. Why issue 2-3 loans instead of one? Likely for the initiation fee which can be charged 2-3 times over.

Capitec maximum customer loans policy

Viceroy has similarly obtained a communication from Capitec Head Office to its branches, which details that after to our original report, Capitec has appears to have increased the maximum number of loans consumers are entitled to 5 – four term loans and one credit facility:

8 February 2018

ALERT

Change to the Maximum Number of Credit Products per Client

Background

In our continuous drive to be the CEO in granting credit and to help our clients to bank better and live better, a change was made to the maximum number of term loans per client.

Note: The change is effective from **today, 8 February 2018**.

Amendments

Section 3.1.1 of the Branch Credit Granting policy (BCGP) was updated and now states:

- 3.1.1 The maximum number of credit products per client is limited to 5 which can include a maximum of 4 term loans (ranging from 2 to 84 months) plus a credit card facility or credit facility or 1 month loan.

Note: The updated BCGP document is available on the [Credit Hub](#).

Branch action required

- Branch managers **must** ensure that all branch employees are aware of this communication
- If a client does not qualify for any credit, count the number of term loans **before** contacting Helpdesk or CAT
- System changes will be done in future to alert employees granting credit that the maximum number of term loans have been exceeded

Figure 14 Extract from Capitec branch communications

While the direction of this limit is unclear from Figure 11, Capitec should disclose to its investors and borrowers why it has amended this policy while recently stating they have adequate risk policies in place. An amendment to the maximum number of loans issued, in either direction, will have a major impact on Capitec's risk profile and should be disclosed to the market.

If the maximum number of loans per customer has increased, we believe this will drastically increase the risk of Capitec's loan book and corroborates our thesis that overindebted customers finance existing loans by taking out fresh loans.

If the maximum number of loans per customer has decreased, this suggests Capitec are actively curbing the underlying risk of their underreprested delinquencies and corroborating our thesis that the loan book is unsustainable.



Viceroy are of the opinion that it is the prudent responsibility of the SARB to investigate this activity. The last dot point on Figure 14 states:

“System changes will be done in future to alert employees granting credit that the maximum number of term loans have been exceeded”

This appears to imply Capitec had no such internal controls in the past to specifically enforce the maximum number of terms loans extended to clients.

The Steinhoff connection

Capitec made the following statement in response to Viceroy’s first report:

• The Board of Directors

Viceroy alleges that ‘Capitec’s board is largely and unsurprisingly made up of several executives from both PSG and Steinhoff’.

The statement above is false as there is no Steinhoff executive (or director) that serves on Capitec’s board. Piet Mouton is the only PSG executive that serves on Capitec’s board. Chris Otto, a non-executive director of PSG, has served on Capitec’s board as a non-executive director since the company’s inception. Markus Jooste served on Capitec’s board from 2011 to 2012 when he retired from the board by mutual agreement due to a possible conflict of interest created by Steinhoff’s entry into the financial services industry when they bought the JD Group. The Capitec board members are listed in the 2017 IAR on pages 42-45.

There is NO business relationship between the members of management of Capitec and Steinhoff.

Related party transactions between Capitec and PSG are detailed in the 2017 IAR as note 31 on page 167. These transactions are at arm’s length and limited to PSG Capital acting as Capitec’s sponsor for the JSE and broker for employee share trust transactions. The amounts concerned are immaterial.

Figure 15 Extract from Capitec response to Viceroy

This appears to be a creative response, and not reflective of Capitec and Steinhoff’s previous bragging about the synergies afforded by Capitec to Steinhoff and its subsidiaries, and Mouton functions as a related party because they sat on each other’s boards:

The deal appears to be a win-win one. “PSG is the majority shareholder in Capitec and Steinhoff will be a majority shareholder in JD Group,” says Biccard. “There is obvious synergy there.” Just as African Bank tied up Ellerines, Capitec and JD Group could align themselves more closely, he says. “The cost of money in a bank is cheaper than equity finance. Capitec could offer JD Group cheaper access to funding, and thus better returns, while the JD book would add scale to Capitec.” JD Group could also mirror Ellerines and provide a Capitec outlet in all of its stores – which number around 1200.

PSG non-executive chairman Jannie Mouton agrees that synergies exist.

“For sure there are things that make sense. The time will come. But I cannot speculate on these matters. We [Mouton and Jooste] are related parties because we sit on each other’s boards. The shareholders will have to decide,” said Mouton.

Figure 16 Extract from moneyweb.co.za article “The Method Behind Steinhoff’s PSG Madness”⁶

⁶ <https://www.moneyweb.co.za/archive/the-method-behind-steinhoffs-psg-madness/>



Mouton also comments on his long personal relationship with Jooste:

It is a given that people do business with people they like and trust, and the relationship between Jooste and Mouton stretches back twenty years. "I offered him a job heading up our corporate finance department at SMK. But he said he had something greater in mind," says Mouton.

As it turned out, Mouton was fired by SMK and founded PSG. Jooste invested in the business from the outset. At around the same time Jooste acquired a small listed company and PSG was the sponsoring broker.

A business partner of Mouton's, Michael Delport, then introduced Jooste to Klaus Daun who introduced him to Bruno Steinhoff. "And things grew from there," recalls Mouton.

In 1998 Mouton invited Jooste onto the PSG board. "I wanted a young person with a sharp brain." But it was in 2002 that the friendship was really sealed. PSG was the subject of a hostile takeover and between them Jooste, Mouton and Daun bought up as many PSG shares as possible and defended the takeover.

For PSG the attraction was to have a big shareholder, the next biggest after the Mouton family which owns 32%. "We like them as a shareholder. They are big and stable." Steinhoff could also open doors and unlock opportunities overseas if PSG wanted to go there one day, says Mouton.

Jooste loves the deal. "It really is a natural extension of many years of history. We have a lot of plans. PSG has investments in a lot of companies, some of which are companies that we do business with. It makes sense to sit around a table."

Figures 17 & 18 Extract from moneyweb.co.za article "The Method Behind Steinhoff's PSG Madness"

Capitec's response to Viceroy

Since the release of our report Capitec has issued two responses to reassure investors that all is well^{7,8}. Viceroy intends to respond to these below.

1. **Allegation that Capitec fabricates new loans and collections, or refinances up to R3b in principal per year by issuing new loans to defaulting clients.**

*"With reference to the reconciliation of the loan book, we can confirm that the estimate in the Viceroy report does not accurately calculate client repayments. They use a figure net of fees on loan accounts based on assumptions regarding the amortisation and capital repayment profile of the loan book. Their estimate of capital repayments of R16.7 billion underestimates actual loan receipts net of fees of R18.6 billion (receipts less fees) by approximately R1.9 billion. **They also reduce write-offs by an estimate of the component of write-offs that originate from new sales in subsequent years. There is a logic flaw that loan sales should be reduced accordingly.** Furthermore, the default rates that they calculate does not consider the fact that **written off balances include fees and should be compared against the sum of actual receipts plus write-offs.**"*

We don't hide behind our use of estimates in calculation of sums we believe have been carried forward; write-off allocation being one assumption we use. We do not believe there is a "logic flaw" in assuming a portion of loans issued within the year being written off, as Capitec balance at risk vintages suggest this **does** occur within the first 12 months:

⁷https://www.capitecbank.co.za/resources/SENS_Viceroy_report_detailed_response_to_main_issues_raised_5_Feb_2018.pdf

⁸https://www.capitecbank.co.za/resources/Capitec_response_-_Viceroy_report_5_February_2018.pdf

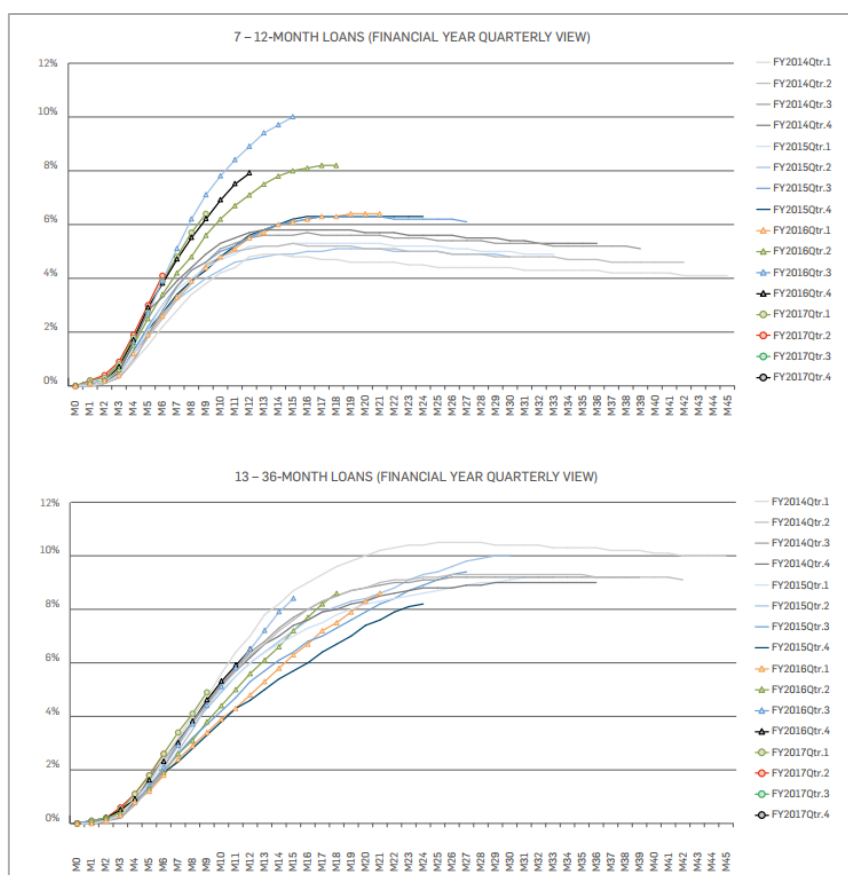


Figure 19 Extract from Capitec Annual Report 2017

Other assumptions used include that loans are issued at a consistent value pace throughout the year: in reality there is a seasonality element where a larger portion of loans are issued towards the back end of the financial year. This consideration would have overcomplicated our analysis but increased our inconsistency, such is our claim that our estimates are conservative.

Fees are a revenue item, not a balance sheet item. Viceroy questions whether the nature of Capitec's loan fees can be included in write-offs under IFRS standards. The implication of including fees in write-offs is an inflation of revenue which must be recorded in order to offset this fee write-off that would otherwise not exist. Write-offs should only be applicable to balance sheet items.

Capitec claim we under-represent our repayments estimate. This could be possible, but through back-testing and evidence obtained we believe it is highly likely that this is due to early repayment of mostly short-term loans through re-financing.

Capitec have avoided response to our claim that in order to make early repayments, Capitec issue new loans to existing clients in order for them to repay existing loans.



2. Allegation of loans granted to delinquent customers to repay existing loans.

*“What the Viceroy report is referring to is the **court cases of 3 particular clients**. They make no mention of Capitec’s comprehensive responses in each of these cases which addresses each of the allegations contained in Viceroy’s report. Our comprehensive responses are public documents and are available at court or from our legal department. Whenever we grant a loan, **we do a comprehensive credit assessment based on the BAS principles (behavior, affordability and source).**”*

We indeed refer to the cases of 3 particular clients and note that legal experts in South Africa believe these cases are representative of Capitec’s actions as a whole. Accordingly, we believe the case scheduled for March 2018 is a test case that will set precedent for a class refund of reckless lending.

We believe this is particularly true across Capitec’s multi-loan facility, (which is prohibited and was **discontinued by Capitec**) and credit facility, latter of which we believe has like-for-like predatory characteristics to the multi-loan facility.

3. Allegation of over-statement of Capitec’s loan book.

“Our impairment on loans are based on the probability of default. Loans are written off at the earliest of when they are in arrears for 90 days or more, or legal hand-over occurs. As at 31 August 2017, our doubtful debt provision covers loan balances in arrears by 237% and 152% when including arrears loan balances rescheduled within the last 6 months. Any competitor analyses requires a further breakdown of their loan granting, pricing, write-off and provisioning policies to compare our approach and position on a like for like basis.”

This statement is illogical. Capitec appear to claim they have a more conservative approach to impairments than competitors through increased write-offs, and essentially notes that a like-for-like analysis must consider that competitors require further write offs to be equally comparable. We believe the sum of Capitec’s reported impairments and write-offs, regardless of its claim of a more conservative approach, is still far below its competitors.

Capitec has pointed out that default rates as a percentage of principal advanced is roughly 100% greater than their balance at risk vintage⁹.

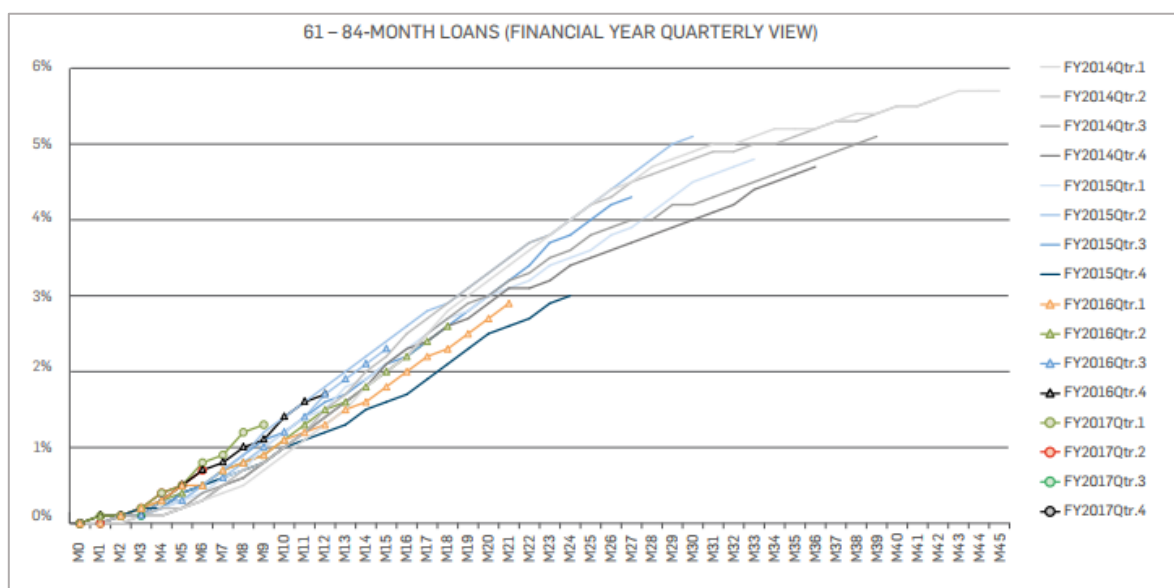


Figure 20 Extract from Capitec Annual Report 2017

⁹ https://www.capitecbank.co.za/resources/Capitec_response_-_Viceroy_report_5_February_2018.pdf



This suggests a delinquency rate of ~ 3% per year, far below the average of Capitec’s target low-income demographic and still well below US unsecured credit card delinquencies.

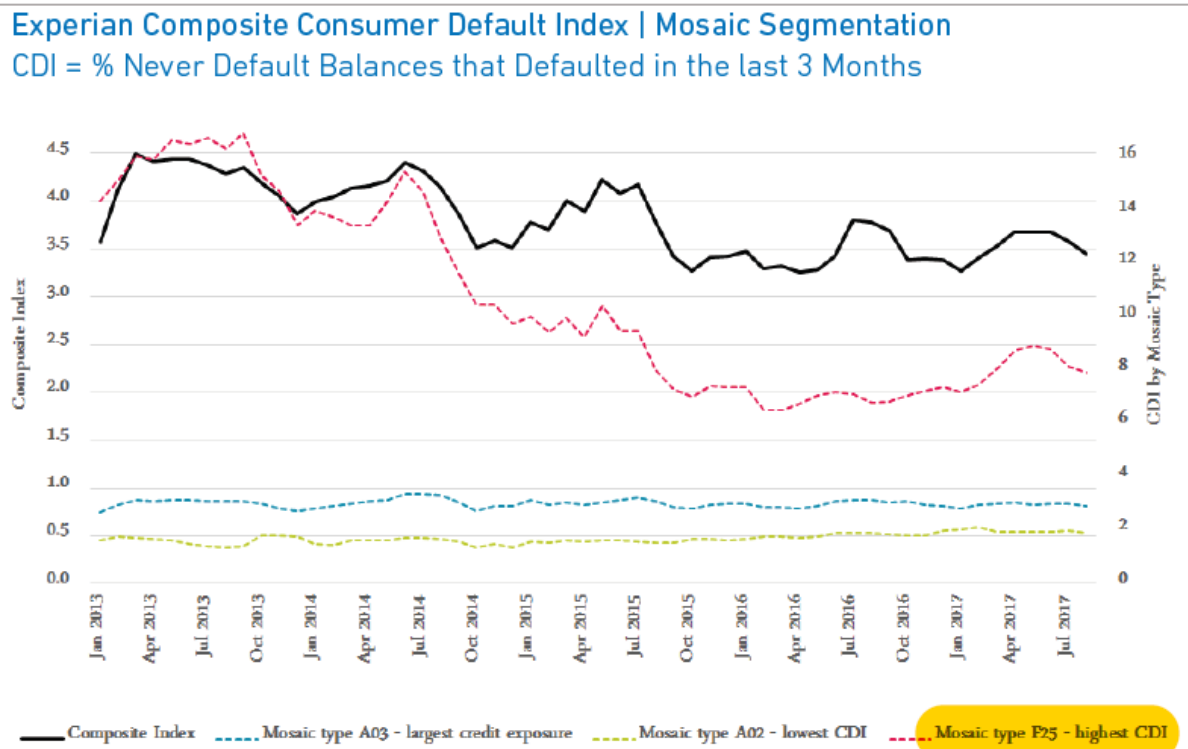


Figure 21 Experian Consumer Credit Default Index November 2017

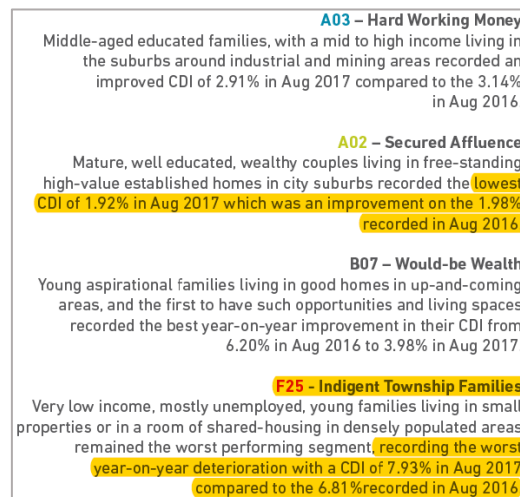


Figure 22 Experian Consumer Credit Default Index November 2017

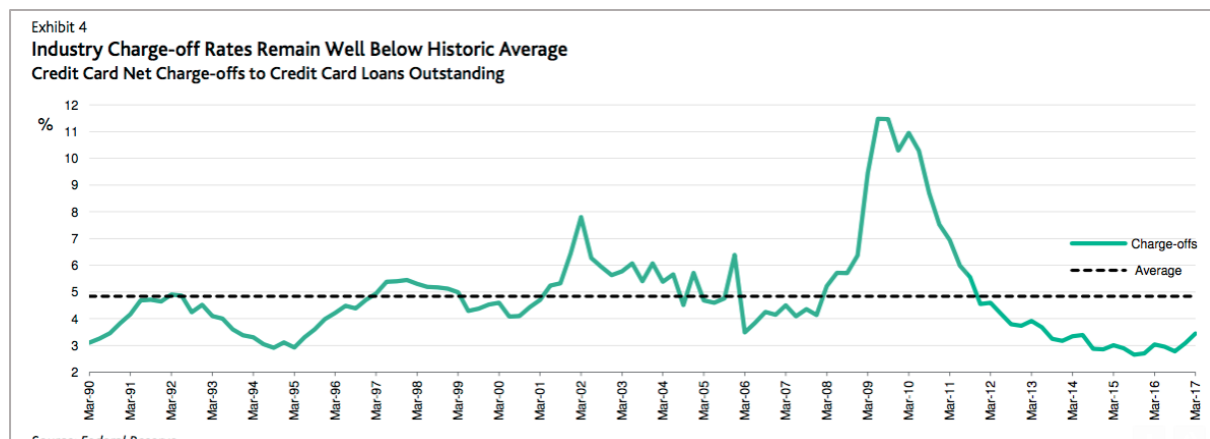


Figure 23 US Credit Card charge off rates

4. Assumption that court cases may result in a class action.

“The proposition of a class action is speculation of the highest nature and premature. The matter must still be heard and Capitec believes it has solid defences to the allegations.

Capitec's explanations in its answering papers in the court cases are not taken into account. The monthly loans were granted under an over-arching multi-loan agreement, concluded at the outset.

Before concluding this agreement, Capitec concluded its standard comprehensive credit assessment. This consisted of documentary and other information provided by the customer (including bank statements, payslips and answers to questions posed by Capitec), as well as information sourced externally from credit bureaux.

Before each withdrawal under the over-arching multi-loan agreement, Capitec performed supplementary credit assessments. Capitec supplemented and updated the results of the underlying initial assessments, and its purpose was to check whether the customer still qualified for the proposed credit.

The process consisted of the following:

- *Customers asked to confirm that, ‘since you signed your last multi-loan agreement, your income is the same or more’ and ‘since you signed your last multi-loan agreement, your expenses are the same or less.’*
- *Capitec making a credit bureau enquiry to enquire whether the customer had any disqualifying legal statutes (insolvency, administration, etc)*
- *Capitec making a credit bureau enquiry to determine the sum total of the customer's current external obligations, i.e. whether in the period since the conclusion of the over-arching multi-loan agreement, he has taken up fresh debt from entities other than Capitec or settled existing debts with such entities (as far as credit from Capitec itself was concerned, this was checked and taken into account directly)”*

Our understanding of the cases is that the above measures were insufficient. Viceroy believes that a class action, on the contrary to being highly speculative, would be a clear end result of these cases. In the cases we referenced:

1. Customers were issued new Capitec loans which were used to repay delinquent Capitec loans; in the process the customer was issued a multi-loan facility.
2. This process did not benefit the customer who was now unable to meet their monthly payments, supported by numerous exhibits which show Capitec’s affordability assessment was wholly unsubstantial.
3. The only winner in this situation was Capitec who were able to claim full repayment of the existing loan and sale of a new loan and multi-loan facility.

We do not believe we could simplify this further for Capitec.



5. **Incorrect correlation between our credit facility and discontinued multi-loan facility**

“The credit facility operates the same way as a credit card except that the Capitec credit facility terminates after 9 months. If the client applies for a new Capitec credit facility we do a new comprehensive credit assessment to see if the client qualifies for a new Capitec credit facility. The initiation fee is only triggered once the client uses the facility up to a maximum fee agreed with the client, that is within the NCA.

Monthly fee - this fee is raised as allowed in the applicable regulations of the NCA. There is a difference between availability and use of the facility and interest is charged as contracted with the client and the full amount used, including interest and fees, is repayable on a monthly basis.”

Credit card rates and fees
<ul style="list-style-type: none">• Initiation fee: R100• Monthly fee: R35• Interest rate: 14.75% - 20.75% (based on your credit profile)
Credit facility rates and fees
<ul style="list-style-type: none">• Initiation fee: R171 for the first R1000 transfer up to R644.10 for following transfers• Monthly fee: R35 (without active balance owing) R68.40 (with active balance owing)

Figure 24 Extract from Capitec “Rates and Fees” webpage¹⁰

“use of the facility and interest is charged as contracted with the client and the full amount used, including interest and fees, is repayable on a monthly basis.”

Viceroy fails to understand how the Credit Facility and Credit Card products offered are remotely similar, most notably due to the Credit Facility’s full monthly repayment. Further, the credit facility charges of at least 17.1% for the minimum ZAR 1,000 transfer, and increased monthly fee with balance owing clearly indicate an expectation of monthly repayments of the balance owed in full.

Despite Capitec’s assertions, the credit facility bears most resemblance to the now-defunct multi-loan product.

The resemblance is more than skin deep:

What is a multi loan?
<ul style="list-style-type: none">• A monthly loan of up to R4 000 (depending on your affordability assessment)• Money available immediately so you can do card payments or get cash at supermarket tills and ATMs• Easy to use – transfer money to your transaction/savings account using your cellphone or Internet (Remote Banking services) and our ATMs• Interest and fees only charged on money used• Repayable in full each month• Reviewed at a branch every 12 months for your convenience

¹⁰ <https://www.capitecbank.co.za/global-one/credit/rates-and-fees>



What is a credit facility?

- Get up to R5 000 (depending on your affordability assessment)
- The money is available immediately so you can do card payments or get cash at supermarket tills and ATMs
- It's easy to use – transfer money to your transaction/savings account using your cellphone or Internet banking (Remote Banking) and our ATMs
- Must be payed back in full each month
- Reviewed at a branch every 9 months for your convenience

Figures 25 & 26 Extracts from archived Capitec multi-loan webpage dated March 20, 2015 and credit facility webpage, respectively^{11,12}

In addition to this, the former URL address for Capitec's multi-loan webpage, www.capitecbank.co.za/global-one/credit/multi-loan now redirects to the credit facility URL, www.capitecbank.co.za/global-one/credit/credit-facility. Capitec's assertion that a 3-month difference in the term of these products is a major difference is purely semantics.

Capitec CEO Gerrie Fourie made a claim on an analyst call held in response to the release of Viceroy's research claiming that the NCR was happy with its use of the multi-loan product:

financial reporting. We've reported a while back that the NCR is investigating the multi-loan. We've also reported that we had quite a lot of meetings with the NCR. We have explained all our product in detail. And the Multi Loan was accepted by the NCR, and they're quite happy with the way we're doing the NCR – with the way we're doing the Multi Loan. And as you also know, Summit has got five cases against ourselves which is basically client cases that we're

our case. And like I said, the NCR is also quite happy with the way we've used the multi-loan.

Figures 27 & 28 Extracts from Capitec analyst call transcript dated January 30, 2018

We struggle to reconcile Fourie's claim that the NCR was happy with the multi-loan product given the NCR directed a third party to investigate Capitec and referred them to the South African consumer Tribunal for breaches of the National Credit Act. We believe this to be an attempt to reassure the market based on what we believe are misleading statements.

¹¹ <https://www.capitecbank.co.za/global-one/credit/credit-facility>

¹² <https://web.archive.org/web/20150326002235/https://www.capitecbank.co.za/global-one/credit/multi-loan>



14. The alleged conduct of the Respondent falls within five categories:
 - 14.1 The first category relates to certain standard terms and conditions that the Respondent imposes on customers in relation to small, short-term and intermediary credit agreements, in contravention of section 90 of the Act;
 - 14.2 The second category relates to the pre-agreement disclosure made by the Respondent to its customers with regard to its intermediate credit agreements, which disclosure is in contravention of section 92, read with Regulation 29, of the Act;
 - 14.3 The third category relates to the Respondent's charging of interest in terms of its small credit agreements, which is in contravention of Regulation 42(1)(b) of the Act;
 - 14.4 The fourth category relates to what the Respondent refers to as its Multi-Loan Product ("multi-loan"). The objectionable conduct is the levying of an initiation fee for each and every withdrawal by the consumer from the multi-loan;
 - 14.5 The fifth category also relates to the multi-loan. The objectionable conduct is the inadequate assessment of a consumer's ability to repay the credit, in contravention of section 81(2) of the Act.

Figure 29 Extract from *National Credit Regulator v Capitec* Case number: NCT/9152/2013/140(1)¹³

The case against Capitec was dismissed because the NCR did not properly initiate an investigation, failing to act on an existing complaint. However, the existence, findings, and pursuit of these issues by the NCR do not indicate the NCR is "quite happy" with Capitec's multi-loan products.

6. *There is a correlation between African Bank and Capitec Bank*

"Capitec Bank's operations are significantly different to that of African Bank Capitec Bank is fully fledged retail bank and has different sources of income, not only credit. It's transactional business continues to contribute materially to its earnings as reported in our 1H 2018 results. Capitec Bank has a significant retail deposit book, unlike African Bank. The result of this is that Capitec has a low reliance on wholesale funding. Capitec Bank has a far more conservative approach to providing credit than African Bank. The provisioning of Capitec Bank is market-leading and significantly more conservative to that specifically of African Bank, as well as other unsecured loan books."

Viceroy has not brought into question Capitec's transactional business. We have compared Capitec's unsecured, largely low-income demographic retail loan book to African Bank's unsecured, largely low-income demographic retail loan book.

7. *Opinions of former employees*

"Employees who are no longer employed by an organisation can make claims that are false. It is patently untrue that Capitec has fired any employees 'for not deceiving borrowers'. Amongst the many inaccuracies in the report another exists where it is claimed that our branch managers earn an average of R13 219 where the actual average is R22 000 per month. We are proud of the journey that we have placed our employees on with the result that many employees are promoted within the organisation."

While we accept that former employees can make false statements, so can current employees, such as those responsible for the drafting of response documents and company press releases. Since the release of our report, consumers and employees have reached out to Viceroy en masse to corroborate our research and provide

¹³ <http://www.saflii.org/za/cases/ZANCT/2014/14.pdf>



further evidence of reckless practices. Here are just a few of the messages via twitter and email from both current employees and customers. For obvious reasons, we have redacted any identifying information.

I am one of those that fell into this loan trap of Capitec and now I'm in so much debt with them I don't know how I'm going to pay it off.

17h

From: [REDACTED]
Date: [REDACTED]
Subject: [REDACTED]
To: [REDACTED]
Cc: [REDACTED]

Good afternoon [REDACTED]

Thank you for getting back to me this morning.

Attached find the documentation, as much as I have, for [REDACTED] with the claims against firstly Capitec Bank and secondly, African Bank. [REDACTED] from Capitec investigated [REDACTED] and found that according to Capitec, all was above board (no sign of reckless lending).

Two loans were given by Capitec Bank, with NO collateral offered or requested. To date [REDACTED] could not manage to get any official documentation from Capitec bank. A month later, during [REDACTED] African Bank also gave him some money, again, no collateral. At this stage he was already way over his head in debt. Yet, no one cares.

If any of these banks did the relevant checks they could not have given him this money.

Also [REDACTED] income as stated on these documents are also INCORRECT. Therefore, how did they do their checks?

As I mentioned before [REDACTED] is intellectually challenged, and it is now our aim to assist him with his finances [REDACTED]

[REDACTED]

Please let me know should you require any additional info.

Sincerely
[REDACTED]

Capitec Bank

Inbox x



[REDACTED] (12 hours ago) ☆

to me ▾

Good day

As an **employee**, of Capitec bank, I commend you for your boldness.
All I'm going to say, you barely scratched the surface.



[REDACTED] (15 hours ago) ☆

to me ▾

Can you please research on unauthorised debit orders and reversal charges by capitec.
They have failed to give me a debit order mandate.



[REDACTED] (13 hours ago) ☆

to me ▾

Good day

We have seen your report on Capitec and we have more information to substantiate that Capitec not only exploits customers but employees as well. We are however afraid to speak out because of victimisation and loss of our jobs.

The bank is able to operate at low costs partly because it pays its employees ridiculously less compared to the rest of the market. Furthermore, job scopes keep on increasing but not the salaries. An agent at the branch or call centre services many different products including credit but is paid way less than his peers in other SA banks.

We have more information to share but we are afraid.



Other Responses

Gerrie Fourie share purchases

Viceroy notes that several media outlets have reported on Capitec CEO Gerrie Fourie's ZAR 1.5m purchase of Capitec shares and viewed this as a vote of confidence in the bank.

UPDATE 1-Boss of South Africa's Capitec buys shares in show of confidence

Capitec CEO buys shares in show of confidence

Fourie buys R1.5 million of shares.

Tanisha Heiberg, Reuters / 1 February 2018 11:16 [One comment so far](#)

Based on this logic, we question what they would make management's transaction activities in 2017:

Date	Entity	Shares Bought	Shares Sold	Average Price	Value (ZAR)	Note
31/01/2018	Gerrie Fourie	1,861		80,849	1,504,605	
28/12/2017	Rian Stassen		100,000	106,992	106,992,936	
19/12/2017	Gerrie Fourie		6,630	103,952	6,892,017	
18/12/2017	Gerrie Fourie		245	100,203	245,497	
11/11/2017	Gerrie Fourie	6,875		20,983	1,442,581	Exercise of options, 1/11/2017 strike date
6/12/2017	Gerrie Fourie		1,416	99,500	1,408,920	Indirect via directorship of Ovotrim
6/12/2017	Gerrie Fourie		2,000	99,580	1,991,600	Indirect via directorship of Ovotrim
28/11/2017	AP du Plessis		3,000	99,385	2,981,567	
28/11/2017	AP du Plessis		1,000	99,300	993,000	Indirect via trustee of The Bergragt Trust
23/11/2017	NS Mashiya		8,875	97,307	8,636,004	
23/11/2017	NS Mashiya	8,875		53,998	4,791,435	Exercise of options, 1/11/2017 strike date
23/11/2017	AP du Plessis		1,000	99,300	993,000	
22/11/2017	AP du Plessis		5,000	99,620	4,981,000	
13/10/2017	AP du Plessis		10,000	93,543	9,354,301	
10/12/2017	MDSP du Ple Roux		22,223	90,552	20,123,346	Expectations
4/08/2017	Rian Stassen		11,000	87,183	9,590,222	Indirect via directorship of Tembador 15
3/08/2017	Rian Stassen		39,000	86,783	33,845,381	Indirect via directorship of DSE Ventures
1/08/2017	AP du Plessis		10,000	85,694	8,569,426	
26/07/2017	Rian Stassen		46,132	85,032	39,227,382	Indirect via directorship of DSE Ventures
25/07/2017	Rian Stassen		34,868	84,685	29,528,175	Indirect via directorship of DSE Ventures
24/07/2017	Rian Stassen		19,000	85,142	16,177,097	Indirect via directorship of DSE Ventures
17/07/2017	Gerrie Fourie		10,000	83,515	8,351,500	Indirect via directorship of Ovotrim
30/06/2017	AP du Plessis		9,000	81,688	7,350,121	
20/06/2017	Rian Stassen		18,242	79,000	14,411,147	
15/06/2017	Rian Stassen		1,758	79,038	1,389,496	
15/05/2017	Gerrie Fourie		14,942	77,078	11,506,504	
26/04/2017	AP du Plessis		204	78,500	160,140	Investments
26/04/2017	Gerrie Fourie		4,000	78,400	3,136,006	
25/04/2017	Gerrie Fourie		20,387	78,435	15,990,563	
25/04/2017	AP du Plessis		7,489	78,500	5,878,685	Disposal to inter alia settle PAYE related to the increase in the market value in the Capitec ordinary shares in excess of the strike price of increase in the market value in the Capitec ordinary shares in excess of the strike price of options exercised on 10 April 2017
24/04/2017	AP du Plessis		1,000	78,500	7,850,000	Exercise of options, (1,2,3,4,5)/4/2017 strike dates, weighted average price
12/04/2017	Gerrie Fourie	33,329		35,043	11,679,631	Exercise of options, 1/4/2017 strike date
10/04/2017	Rian Stassen	7,500		16,009	1,200,675	Exercise of options, 1/4/2017 strike date
10/04/2017	Rian Stassen	12,500		19,852	2,481,500	Exercise of options, 1/4/2017 strike date
10/04/2017	AP du Plessis	25,489		31,145	7,938,786	weighted average price
4/04/2017	AP du Plessis	5,936		19,643	1,166,008	Exercise of options, 1/4/2017 strike date
4/04/2017	AP du Plessis	5,000		19,852	992,600	Exercise of options, 1/4/2017 strike date
4/04/2017	AP du Plessis		10,936	78,252	8,557,691	increase in the market value in the Capitec ordinary shares in excess of the strike price of options exercised on 10 April 2017
12/01/2017	Rian Stassen		50,000	70,650	35,325,050	Indirect via directorship of DSE Ventures



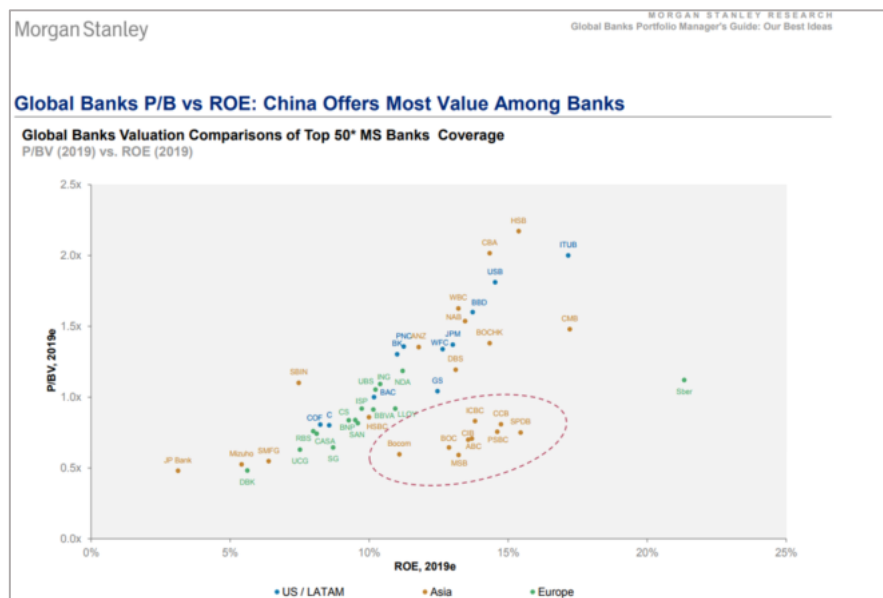
Entity	Shares Bought	Value (ZAR)	Shares Sold	Value (ZAR)
Gerrie Fourie	40,204	13,122,212	59,620	49,522,607
Rian Stassen	20,000	3,682,175	320,000	286,486,886
AP du Plessis	36,425	10,097,394	58,629	41,749,384
MDSP du P le Roux	0	0	22,223	20,123,346
NS Mashiya	8,875	4,791,435	8,875	8,636,004
	105,504	31,693,216	469,347	406,518,227

Figures 30 & 31 Director sales of Capitec shares¹⁴

This is also the first time since 2015 that Fourie has purchased Capitec shares on the open market.

Sell side analysis

JP Morgan have released an investment note with an overweight recommendation which appears to be content that Capitec's metrics have no resemblance on any other bank globally, including having the 2nd highest ROE and a price-to-book multiple so insane that exceeds their closest "competitor" by over 57%. Morgan Stanley maintained equal weight recommendation despite Capitec's price-book multiple and RoE being so high that it exceeds both axes of their global top bank comparisons graph:



Deutsche Bank reiterated its sell position on the Company, and states that "an independent investigation is the best manner to deal with the issues raised and to address any concerns". We agree especially in light of Capitec having only one auditor in an environment where the status quo for deposit-taking institutions is to have two.

SARB tweet

Viceroy is also astounded by the announcement by the South African Reserve Bank in support of Capitec on twitter just over 3 hours after the release of our report.

¹⁴ <http://www.sharenet.co.za/snet/>



Figure 32 SA Reserve Bank tweet dated 3:00AM January 30, 2018

We fail to see how SARB could have investigated and dismissed the claims of our 33-page report in little over 3 hours.

We believe this is a knee-jerk response designed to calm the markets. African Bank dug itself into a precarious position regarding its loan book which culminated in a bailout financed by South African taxpayers. Given the extensive evidence we have compiled which we believe make Capitec's financial data unreliable. An investigation, at minimum, is required by the South African Reserve Bank. We have addressed the South African Reserve Bank's response separately.

Conclusion

Management's response appears to actively avoid any actual denial of under-the-table refinancing as detailed in our report.

Capitec in their response have:

1. Failed to deny the practice of issuing delinquent customers new loans to repay old loans,
2. Failed to explain their suspiciously low impairments rate,
3. Attempted to distance its current credit facility product from its multi-loan product despite glaring similarities between the two.

In conclusion Viceroy reiterates its opinion that Capitec is uninvestable. Much of the media coverage and discussion about our report is focused on the safety of the retail deposits at Capitec bank. We believe Capitec should be placed under curatorship in order to protect its borrowers, who are comprised of the most financially at-risk demographic in South Africa.